

Message Text

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64

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SUBJECT: FOREIGN REGULATION OF FOREIGN BROKERS AND UNDERWRITERS

REF: A. STATE 79749 B. MONTREAL 1288 C. MONTREAL A-23

1. EMBASSY POUCHING DESCRIPTION OF REGULATIONS GOVERNING CANADIAN CONTROL OF FOREIGN BROKERS AND UNDERWRITERS AND COPIES OF FEDERAL LAWS GOVERNING TRUST COMPANIES, LOAN COMPANIES AND FOREIGN INSURANCE COMPANIES. MATERIALS INCLUDE: PORTIONS OF "THE FINANCIAL SYSTEM OF CANADA", BOOK BY E.P. NEUFELD; SECTIONS OF THE "MOORE" REPORT ON THE CANADIAN SECURITIES INDUSTRY AND A MERRILL LYNCH SUMMARY OF RESTRICTIONS ON FOREIGN FINANCIAL INSTITUTIONS.

2. PROVINCIAL SECURITIES COMMISSIONS EXERCISE GENERAL SUPERVISORY AUTHORITY OVER THE CANADIAN SECURITIES INDUSTRY, BUT THEY RELY ON SELF-REGULATION BY THE INDUSTRY THROUGH THE INDIVIDUAL STOCK EXCHANGES, THE INVESTMENT DEALERS' ASSOCIATION OF CANADA AND THE BROKER-DEALERS' ASSOCIATION OF ONTARIO. AS REPORTED REFTEL (B), BOTH COMMISSIONS AND SELF-REGULATORY AGENCIES HAVE IMPOSED RESTRICTIONS ON FOREIGN BROKERS.

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3. IN 1969 THE TAKEOVER OF THE CANADIAN FIRM OF ROYAL SECURITIES CORP. LTD. BY MERRILL LYNCH PROMPTED THE ESTABLISHMENT OF AN INDUSTRY (MOORE) COMMITTEE" TO STUDY THE REQUIREMENTS AND SOURCES OF CAPITAL AND THE IMPLICATIONS OF NON-RESIDENT CAPITAL FOR THE CANADIAN SECURITIES INDUSTRY" (COPY OF REPORT POUCHED TO EUR/CAN, JUNE 1970). THE EXCHANGES THEN IMPOSED A MORATORIUM ON ALLOWING NEW MEMBERSHIP TO FOREIGN-CONTROLLED AFFILIATES. MORATORIUM WAS TEMPORARILY LIFTED FOR WHITE WELD'S MEMBERSHIP ON MONTREAL STOCK EXCHANGE (REFTEL B) BUT IS STILL APPARENTLY IN FORCE FOR OTHER EXCHANGES. TORONTO SECURITIES COMMISSION RULED IN MID-1971 THAT NO NEW FOREIGN SECURITIES FIRMS WOULD EVEN BE REGISTERED UNLESS 75 PERCENT CANADIAN-OWNED.

4. SINCE SELF-REGULATORY AGENCIES ARE MORE RESTRICTIVE ON NON-RESIDENT CONTROLLED SECURITIES FIRMS THAN FEDERAL OR PROVINCIAL REGULATIONS (REF C), IMPLEMENTATION OF POLICY STATEMENT BY CANADIAN IDA AND MONTREAL, TORONTO AND VANCOUVER STOCK EXCHANGES WOULD EFFECTIVELY CURTAIL ANY NEW FOREIGN SECURITIES FIRM ATTEMPTING TO ESTABLISH ITSELF IN CANADA. IN HIS AUTHORITATIVE BOOK "THE FINANCIAL SYSTEM OF CANADA", PUBLISHED IN 1972, E.P. NEUFELD WRTOE, "THE PROBABILITY IS THAT THE RULES OF THE SELF-REGULATORY BODIES - THE IDA AND THE STOCK EXCHANGES - WILL MAINTAIN FOREIGN PARTICIPATION IN THE CANADIAN SECURITIES BUSINESS AT ITS PRESENT LEVEL, WHICH IS ABOUT 10 PERCENT OF THE TOTAL AS FAR AS STOCK TRADE IS CONCERNED AND MUCH LESS IF UNDERWRITING ACTIVITY IS INCLUDED."
JOHNSON

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